

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4612-02
Bill No.: Perfected HCS for HB 1677
Subject: Insurance - Medical; Revenue Department; Taxation and Revenue.
Type: Updated
Date: April 24, 2006
#Updated with additional information from the State of Utah

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
#General Revenue	(\$1,916,990 to \$4,516,990)	(\$3,758,226 to \$8,958,226)	(\$5,600,187 to \$13,400,187)
#Total Estimated Net Effect on General Revenue Fund	(\$1,916,990 to \$4,516,990)	(\$3,758,226 to \$8,958,226)	(\$5,600,187 to \$13,400,187)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 5 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Secretary of State, Department of Insurance** and the **Department of Health and Senior Services** each assume the proposal will not fiscally impact their respective agencies.

Officials from the **Department of Revenue (DOR)** state this legislation allows a taxpayer to deduct the amount paid for qualified health insurance premiums from the taxpayer's FAGI equal to the percentage amounts as follows:

- 1) Up to 20% for tax year 2006
- 2) Up to 40% for tax year 2007
- 3) Up to 60% for tax year 2008
- 4) Up to 80% for tax year 2009
- 5) Up to 100% for tax year 2010

DOR assumes this change will require an additional line on the Missouri income tax return (the MO-1040).

DOR's Personal Tax will require one additional temporary employee to key the additional line.

ASSUMPTION (continued)

DOR's Taxation state they have no way of determining the number of taxpayers who will take advantage of this deduction, but assume there will be a large number of them. Therefore, Personal Tax will also need 1 Tax Processing Technician I for every 19,000 claims/errors due to verification & lack of documentation and 1 Tax Processing Technician I for every 2,400 additional pieces of correspondence to respond and make adjustments to accounts.

This legislation will require modifications to individual and corporate income tax systems. DOR's Taxation estimates these modifications will require a MINITS programming costs of \$46,170 (1,384 hours). COINS will also need to be modified for a programming cost of \$23,085 (692 hours). The department proposes to cover these costs with current IT staff. Effective July 1, 2006, DOR's IT staff will be moved to the Office of Administration pursuant to consolidation, but DOR has no reason to believe this transfer will limit their ability to absorb these costs. In the event multiple new credits/deductions are passed, this cost could exceed current appropriation levels and result in additional funds being requested.

DOR assumes the cost of the additional FTE and temporary would cost roughly \$85,000 per year.

Oversight assumes DOR will not incur additional floor space expense for the additional FTE.

Officials from the **Office of Administration - Budget and Planning (BAP)** state the proposal creates a phased-in income tax deduction for the cost of any qualified health insurance premiums. According to the US Bureau of Labor Statistics 2004 Consumer Expenditure Survey, the average consumer unit spent \$1,332 on health insurance. The average consumer unit had 2.5 people, implying an estimated \$533 per person for health insurance. The latest US Census Bureau estimate for Missouri was 5.8 million people, therefore an estimated \$3.1 billion was spent on health insurance in Missouri in 2004.

BAP notes that the original version of this proposal contained language restricting this deduction to privately acquired insurance. This version does not contain this language. Assuming a 4.5% marginal tax rate, this proposal would lower general and total state revenues by \$140 million (\$3.1 billion x 4.5% marginal tax rate) annually when fully implemented. In FY 2007, at 20%, the potential impact could be a \$28 million loss, \$56 million in FY08, and \$84 million in FY09.

BAP notes that this deduction only applies to health insurance premiums included in Federal Adjusted Gross Income (FAGI). It is likely that a significant amount of health insurance premiums are excluded from FAGI if the taxpayers participate in "cafeteria" plans. Further, taxpayers that itemize their deductions may already deduct these payments. Therefore, the

figures above may overstate the actual impact by an unknown amount.

ASSUMPTION (continued)

#Oversight has collected information from the State of Utah, which has an existing program similar to this proposal. Utah's program is entitled the 'Health Care Insurance Premium Deduction'. Since Oversight was unable to determine the number of health care premium amounts that were taken as a deduction on taxpayers's federal return, or the percentage of insurance premiums that were run through a cafeteria plan (taken out pre-tax), Oversight will utilize the fiscal impact of Utah's program to project the fiscal impact of this bill to Missouri.

#Oversight was able to gather information for five years from Utah, and utilizing the number of returns filed in Utah in 2004 (990,317) compared to Missouri (2,241,250), Oversight was able to project a range for the fiscal impact of the same program in Missouri from \$9.2 million to \$22.2 million per year. Taking twenty percent of this range is \$1.84 million to \$4.44 million in the first year.

#Oversight was not able to determine the comparability of the demographics of the state of Utah and the state of Missouri. However, Oversight will assume a similar number of Missouri residents will qualify for and take the deduction allowed in this proposal.

This proposal will reduce Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2007 (10 Mo.)	FY 2008	FY 2009
GENERAL REVENUE			
<u>Costs - Department of Revenue</u>			
Personal Service (2 FTE)	(\$39,278)	(\$48,312)	(\$49,520)
Fringe Benefits	(\$17,306)	(\$21,286)	(\$21,818)
Expense and Equipment	(\$13,206)	(\$1,063)	(\$1,095)
Temporary Employees	<u>(\$7,200)</u>	<u>(\$7,565)</u>	<u>(\$7,754)</u>
<u>Total Costs - DOR</u>	(\$76,990)	(\$78,226)	(\$80,187)
<u>#Loss - Insurance Premium Tax Deduction</u>	<u>(\$1,840,000 to \$4,440,000)</u>	<u>(\$3,680,000 to \$8,880,000)</u>	<u>(\$5,520,000 to \$13,320,000)</u>
#ESTIMATED NET EFFECT TO GENERAL REVENUE	<u>(\$1,916,990 to \$4,516,990)</u>	<u>(\$3,758,226 to \$8,958,226)</u>	<u>(\$5,600,187 to \$13,400,187)</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2007 (10 Mo.)	FY 2008	FY 2009
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

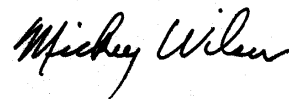
DESCRIPTION

This proposal authorizes a phased-in income tax deduction for health insurance premiums paid by the taxpayer for the taxpayer, the taxpayer's spouse, or the taxpayer's dependents. For tax year 2006, a 20% deduction is allowed, 40% for 2007, 60% for 2008, 80% for 2009, and 100% for 2010 and beyond.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Revenue
Office of Administration - Budget and Planning
Department of Insurance
Department of Health and Senior Services
Office of the Secretary of State



Mickey Wilson, CPA
Director
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